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Benefit Plan Audit Specialists

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COVID-19 Financial Reporting Considerations



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As noted in the AICPA's Center for Plan English Accounting, [Consequences of COVID-19 Financial Reporting Considerations](#), the coronavirus pandemic

(COVID-19) is a human tragedy. We all hope that the effects will be behind us soon, but the disruption and impact is already significant. The special report provides reminders to practitioners about financial reporting matters that may need to be considered related to COVID-19.

The [special report](#) is geared for general financial reporting and can be obtained by clicking the link above . Below, we highlight some of the impact to benefit plans. Also, below we have provided links to AICPA, DOL and IRS resources which continually put out guidance on the impact of the COVID-19 pandemic related to accounting, auditing and regulatory matters. We at Torrillo & Associates continue to operate and will continue to be available to support our clients, colleagues and community. If we can be of any assistance, please do not hesitate to contact us.

Subsequent Events

For calendar year end 2019 financial statements, any COVID-19 related subsequent events identified likely are to be nonrecognized subsequent events (Type II).

Some nonrecognized subsequent events may be of such a nature that financial statement disclosure is required to keep the statements from being misleading. In these situations, financial statements need to include disclosure of the following:

- The nature of the event or events
- An estimate of the financial statement effect of the event or events, or a statement that the estimate cannot be made

Market Value Declines

Additionally, as it relates to subsequent events – market value declines, the special report guidance states:

In our experience, most entities do not choose to make financial statement disclosures that are general business risks or are broadly impactful to the majority of entities, such as volatility in the stock market. For example, most non-public entities do not make financial statement disclosures regarding potential changes in value of recognized assets and liabilities due to future potential risks related to climate change, the outcome of elections, or changes in government policy. We also looked through each 10-K filed between March 9th and 16th, 2020 and noted none of them specifically mentioned the most recent decline in the stock market in their MD&A. Instead, they all included boilerplate language about risk of declines in market values of investments.

As a result, while it is ultimately up to your individual clients if they want to include something in the financial statement disclosures specific to recent stock market volatility, our position is that such a disclosure should generally not be necessary if general disclosures related to market risks are already included in the notes to the financial statements.

We note that this guidance is for general financial reporting and therefore not for specific financial reporting for benefit plan financial statements. With the assets of benefit plans being primarily in investments and required disclosures already required for market risk, plan sponsors may or may not determine that they believe additional disclosure be made related to market value declines related to COVID-19.

Accounting Estimates

The assumptions and data supporting certain accounting estimates may be affected by the consequences of COVID-19. Practitioners should evaluate whether judgments and decisions made by management in making accounting estimates remain reasonable, in light of any economic and business developments. *AU-C 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, addresses auditor responsibilities related to accounting estimates and disclosures in financial statement audits.

Considerations for Defined Benefit Plan

For defined benefit plan's the actuarial present value of accumulated plan benefits does have certain accounting estimates related to long-term investment returns, discount rates, mortality tables and retirement assumptions. Currently, defined benefit plans typically disclose that Plan contributions and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements. The impact of the COVID-19 pandemic could impact in the future these assumptions with some potentially increasing and others potentially decreasing the actuarial present value of accumulated plan benefits. Management could add additional disclosure related to these impacts as well as disclosure that, at the time of issuance of the financial statements, management cannot reasonably estimate the impact as there are many uncertainties in such estimates.

Going Concern

The ability of an entity to continue as a going concern is affected by many factors, including the industry and geographic area in which the entity operates, the financial health of customers and suppliers of the entity, and the accessibility to financing that is available for the entity. The consequences of COVID-19 may impact those factors and may cause a deterioration in an entity's operating results and financial position. As such, entities and practitioners may need to consider recent pertinent information related to their assessments of going concern. The period of time that typically needs to consider related to a going concern assessment is one year from the financial statement issuance

date (or at the date that the financial statements are available to be issued, when applicable).

Considerations for Defined Contribution Plans

For most defined contribution plans, the ability of the Plan to remain a going concern for past one year from the financial statement issuance date is likely to be determined by management not to be an issue. This is because defined contribution net assets are mostly investments at market value, and they are available for benefits to participants.

Considerations for Defined Benefit Plans

For defined benefit plans, however, there is a benefit obligation, which is not limited to net assets available for benefits. For many defined benefit plans, the ability of the Plan to remain a going concern for past one year from the financial statement issuance date may be determined by management not to be an issue. This could be a result of management determining that the Plan has net assets available for benefits to meet any benefit payments for the next year and/or for several years beyond. However, plan management for defined benefit plans will also need to consider the following in making their determination of going concern:

- Need to obtain an extraordinary contribution from the plan sponsor.
- Need to dispose of substantial assets outside the ordinary course of operations.
- Inability to make benefit payments when due.
- Default on loan or similar agreements.
- Restructuring of debt.
- Legal proceedings, legislation, or similar matters, for example, determination that the plan is no longer a qualified plan, that might jeopardize a plan's ability to operate.
- The plan's merger or consolidation with another plan or its transfer of assets or liabilities to another plan.

- The plan's adoption of an amendment that reduces the benefit payable from employer contributions.
- Failure to meet the minimum funding requirements; or the request for, or granting of, a minimum funding waiver.
- The bankruptcy, insolvency, liquidation, dissolution, or similar settlement of the plan sponsor or of employers participating in a multiemployer plan.
- The PBGC's determination that the plan sponsor will be unable to meet its debts and continue in business without a termination of the plan, or that continued pension costs are unreasonably burdensome because of a decline in the workforce covered by the plan.
- The filing of notices to the PBGC that the plan intends to seek a distress termination.
- The plan administrator's reporting of a reportable event to the PBGC.

Other Considerations

Asset impairment, loss contingencies, leases, variable consideration under revenue recognition and hedging relationships are other specific items discussed in the *Consequences of COVID-19 Financial Reporting Considerations*. However, these items are typically not widely found in benefit plan financial statements, but should be considered by plan management if they do apply.

Disclosures

Below are example disclosures Plan management could consider related to benefit plan financial statements for Type II subsequent events. We note that some plans are adding disclosure as a separate subsequent event while others are adding disclosure to their risk and uncertainties notes. The following examples are not meant to be all inclusive. Plan management must ensure that any disclosures made in their financial statements reflect the facts and circumstances unique to their plan and that the financial statements and disclosures comply with accounting principles generally

accepted in the United States of America or, if applicable, the relevant special purpose framework.

Example Subsequent Event Disclosure – Defined Contribution Plan

The COVID-19 pandemic during 2020 has significantly disrupted financial markets, economies and other events subsequent to December 31, 2019. As noted in the risk and uncertainties note, investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

Subsequent to December 31, 2019, the impact to the Plan of the COVID -19 pandemic during 2020 has resulted in significant reductions in values to many investments of the Plan. It has also significantly decreased interest rates. The long-term impact of the effects of the COVID-19 pandemic to the Plan and Plan sponsor as well as any relief from regulatory authorities are currently not known. The extent of the adverse impact of the COVID-19 pandemic on the Plan's participant account balances and the net assets available for benefits cannot be reasonably estimated at this time.

Example Subsequent Event Disclosure – Defined Benefit Plan

The COVID-19 pandemic during 2020 has significantly disrupted financial markets, economies and other events subsequent to December 31, 2019. As noted in the risk and uncertainties note, investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the

level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

The actuarial present value of accumulated plan benefits is reported based on certain assumptions pertaining to interest rates and employee demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions will occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the value of accumulated plan benefits.

Subsequent to December 31, 2019, the impact to the Plan of the COVID-19 pandemic during 2020 has resulted in significant reductions in values to many investments of the Plan. It has also significantly decreased interest rates and could impact employee demographics which could change assumption utilized in the future for the actuarial present value of accumulated plan benefits. While management of the Plan currently expects to be able to continue to meet immediate contribution requirements, the long-term impact of the effects of the COVID-19 pandemic to the Plan and Plan sponsor as well as any relief from regulatory authorities are currently not known.

The extent of the adverse impact of the COVID-19 pandemic on the Plan's net assets available for benefits and actuarial present value of accumulated plan benefits cannot be reasonably estimated at this time.

Additional Resources

[AICPA Coronavirus \(COVID-19\) Resource Center](#)

[US Department of Labor Coronavirus Resources](#)



IRS Coronavirus Tax Relief



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Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

Recent Articles

- [Executive Order Issued to Expand Access to Alternative Assets for 401\(k\) Investors](#)

- [DOL Promotes New On-Line Self-Correction Program](#)
- [DOL Files Amicus Brief Supporting Use of Forfeitures to Reduce Employer Contributions](#)
- [US Department of Labor Rescinds 2022 Guidance on Cryptocurrency in 401\(k\) Plans](#)

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